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Executive Board of the United Nations Development Programme, the United Nations Population Fund and the United Nations Office for Project Services

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UNFPA – Internal audit and investigation

United Nations Population Fund

Report of the Director of the Office of Audit and Investigation Services on UNFPA internal audit and investigation activities in 2016

Opinion on the Adequacy and Effectiveness of the UNFPA Framework of Governance, Risk Management and Control

In the opinion of the Director of the Office of Audit and Investigation Services, based on the scope of work undertaken, the adequacy and effectiveness of the UNFPA governance, risk management and internal control processes was 'partially satisfactory' – which means that the processes were generally established and functioning but one or more issues were identified that, if not addressed by management, could negatively affect the achievement of UNFPA objectives. None of the issues identified were, however, assessed as having the potential to seriously compromise that achievement.

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I. Opinion

1. The opinion on the adequacy and effectiveness of the UNFPA Framework of Governance, Risk Management and Control is provided in accordance with Executive Board decision 2015/13 of June 2015.

2. In the opinion of the Director of the Office of Audit and Investigation Services (OAIS), based on the scope of work undertaken, the adequacy and effectiveness of the UNFPA governance, risk management and internal control processes was 'partially satisfactory' – which means that the processes were generally established and functioning but one or more issues were identified that, if not addressed by management, could negatively affect the achievement of UNFPA objectives. None of the issues identified were, however, assessed as having the potential to seriously compromise that achievement.

II. UNFPA management responsibilities

3. UNFPA management is responsible for designing and maintaining the governance, risk management and internal control processes and ensuring that these operate effectively. The responsibility of OAIS is limited to independently assess the adequacy and effectiveness of these processes.

III. Criteria used for assessing the adequacy and effectiveness of the governance, risk management and internal control processes

4. OAIS utilized the 2013 internal control framework and the 2014 enterprise risk management integrated framework of the Committee of Sponsoring Organizations of the Treadway Commission – adopted by UNFPA as the basis for its internal control framework and enterprise risk management process, respectively – as the main criteria for assessing the adequacy and effectiveness of the governance, risk management and internal control processes to provide reasonable assurance on the achievement of the UNFPA objectives in the following categories:

(a) Strategy: fulfilment of UNFPA mandate and achievement of its strategic plan goals;

(b) Operations: effectiveness and efficiency of UNFPA operations, including (i) operational and financial performance goals; (ii) conformity of expenses with the purpose for which funds were allocated; and (iii) safeguarding of assets against loss;

(c) Reporting: reliability of internal and external (i) financial reporting and (ii) non-financial reporting by UNFPA; and

(d) Compliance: adherence to the UNFPA regulatory framework, as established in its legislative mandate, rules, regulations, policies and procedures.

IV. Scope of audit work and additional sources of evidence considered for formulating the opinion

5. The opinion is based on (a) OAIS audits of country offices, regional offices, core business processes, programmes, and information and communications technology components; and (b) joint audits of joint United Nations activities, concluded between 1 January and 31 December 2016, as detailed in the Report of the Director of the Office of Audit and Investigation Services on UNFPA internal audit and investigation activities in 2016 (DP/FPA/2017/6, sections IV and VI, and Annex 2).

6. All OAIS audits were conducted in accordance with the applicable policies by which it has to abide – the oversight policy, the financial rules and regulations, the staff rules and regulations, and the International Standards for the Professional Practice of Internal Auditing.[1]

7. To formulate its opinion, OAIS considered, as appropriate, other sources of evidence, including: (a) cumulative audit knowledge stemming from OAIS audits completed in previous years, as considered relevant; (b) the outcome of the 2016 audit risk assessment, undertaken to support the development of the 2017 audit plan; (c) the status of implementation of internal audit recommendations as at 31 December 2016; (d) systemic issues noted by investigations completed in 2016; (e) audit findings reported by the United Nations Board of Auditors in its management letter on the interim 2016 audit of UNFPA, dated 30 January 2017; (f) results of national execution audits commissioned by management and completed in 2016; (g) results of control self-assessments completed by numerous country and regional offices as well as certain headquarters business units in January 2017; (h) third-party assurance reports obtained by management regarding outsourced vendor management, and messaging and collaboration systems hosting and management services; and (i) results of the strategic and fraud risk assessments completed as part of the enterprise risk management process under implementation by management.

8. The audits and some additional sources of evidence considered for purposes of formulating the opinion refer to activities undertaken by UNFPA primarily in 2015 or in previous years. Additional matters could have been identified that may have impacted the opinion had additional audit work been performed in 2016 and/or in previous years.

9. In 2016, as in previous years, UNFPA outsourced significant functions to other United Nations system organizations, including: (a) selected human resources management activities; (b) staff and service contract holder payroll preparation and payment; (c) payment processing; (d) treasury management; and (e) hosting and management of the enterprise resource planning system. UNFPA management relied on the management and fiduciary oversight activities undertaken by the organizations to which these functions were outsourced, as regards the adequacy and effectiveness of the related governance, risk management and internal control processes. These are not covered by the OAIS opinion.

10. In addition, UNFPA outsources significant information and communications technology functions, including the hosting of significant systems, to third-party service providers. UNFPA management did not obtain third-party assurance reports on the adequacy and effectiveness of the governance, risk management and internal control processes related to firewall and vulnerability management, technology infrastructure maintenance and website hosting services; these are not covered by the OAIS opinion.

V. Process followed for aggregating audit results and assessing issues

11. Results of the audits undertaken by OAIS and additional evidence considered to formulate the opinion were aggregated by audit area and process, using the framework previously developed for the audit risk assessment and for reporting key findings of internal audit and investigation activities.

[1] Promulgated by the Institute of Internal Auditors (IIA).

12. The potential impact of the issues identified on the achievement of the relevant UNFPA objectives in the categories detailed in paragraph 4 above was assessed taking in consideration: (a) the ratings assigned to the entities, processes, programmes and areas covered by the audits, weighted based on the value of audited expenses; (b) the nature and materiality of the issues identified, individually and in the aggregate; (c) their root cause and pervasiveness; (d) the risk profile, as determined based on the outcome of the OAIS audit risk assessment, and the materiality of the processes affected; (e) the degree to which internal audit recommendations related to these processes had been implemented; and (f) the adequacy and effectiveness of compensating controls operating at headquarters or at regional office level that could contribute to mitigating the impact of the issues found.

VI. Basis for the opinion formulated

13. OAIS assessed the adequacy and effectiveness of the UNFPA governance, risk management and internal control processes as 'partially satisfactory' – which means that these processes were generally functioning but that one or more issues were identified that, if not addressed by management, could negatively affect the achievement in the categories detailed in paragraph 4 above.

14. The key improvement areas leading to this opinion are described below:

A. Governance and risk management

Integrated control framework

15. The development of the comprehensive and integrated control framework should be finalized, covering all relevant governance, programme and operations management processes – including information and communications technology; and clearly outlining the key controls required to minimize risks identified for each process, the related implementation steps and the responsibility for operating them.

16. Completion of such a framework will provide a useful tool to allow management to enhance awareness about, and training on, internal control requirements (supplementing efforts already under way, such as a periodic control self-assessment survey); better enforce accountability for internal controls; and more promptly and effectively complete the planned review and update of the policies and procedures manual, under way at the time of developing the present opinion.

Enterprise risk management

17. Changes to the enterprise risk management process were introduced in 2016, particularly in the functionality of '*myRisks*', the 'strategic information system' module developed to document strategic and fraud risk assessments undertaken by field offices and headquarters units.

18. The process needs to mature further, improving on its design and operating effectiveness, bridging the skill-set gaps that limit the relevance of assessments completed by business units. The activities planned for the risk response phase should be fully implemented, including the review and analysis by the risk treatment working groups (i.e., groups of subject matter experts) planned for the second quarter of 2017.

19. Management plans to introduce further enhancements to the process are welcomed, including the use of a differentiated risk management approach for countries operating in humanitarian and fragile contexts or facing large increases in programme size, the issuance of a revised fraud policy, and fraud awareness training for the UNFPA personnel and implementing partners.

Organizational structure and staffing

(i) Business unit capacity

20. Timelier approval and implementation of business unit organizational structure and personnel alignment reviews, typically undertaken concurrently with the development of new programmes or in response to significant programme changes, is needed to ensure that capabilities remain aligned to programme delivery and operational needs.

(ii) Vacancies in key management positions

21. Management took action to lower the vacancy rate for key positions, such as the leadership pool implementation. Audits continued nevertheless to reveal instances of offices delivering large and/or complex programmes, or operating in fragile contexts, where key vacancies were not promptly filled – depriving these offices from sustained leadership and management oversight.

Headquarters and regional office support and oversight

22. Managerial oversight controls (i.e., "second line of defense") at headquarters and regional offices should be strengthened – defining clear terms of reference and guidelines as regards the nature, scope and frequency of management oversight; develop appropriate managerial reports; and assign sufficient human and financial resources thereto.

23. To minimize the risk arising from gaps in management leadership and oversight, headquarters and regional office support to, and oversight over, business units affected by prolonged vacancies should be increased until such time as the positions are filled.

B. Internal Control

Programme Management

(i) Programme planning and implementation

a. Results-based management

24. More comprehensive programme results and resources frameworks should be developed, supplementing country, regional and corporate programme documents. They should better outline: (a) programme outputs; (b) indicators and related baselines and targets; (c) milestones (i.e., intermediate results); and (d) resource estimates, with disaggregated information for all periods within the programme cycle. This would allow a more effective planning and implementation of programme activities and better racking of progress towards achieving expected programme results.

25. This need is particularly important for offices operating in 'delivering as one' countries that decided to use joint programme instruments, such as the United Nations Development Assistance Framework or the United Nations Development Assistance Plan, results and resources matrices, as these often provide information insufficiently detailed for programme planning and results tracking.

26. Challenges in this area are exacerbated by limited quality assurance at regional office level.

27. Management indicated that it is considering mandating the use of new programme instruments, such as project or output documents, to help ensure more effective programme planning and implementation, as well as tracking of programme results.

b. Workplan management

28. Improvements in workplan management were noted, following the implementation, in November 2014, of the global programming system, particularly as regards workplan set-up in the Atlas application and increased visibility and transparency on workplan activities and related budgets. Improvements were also fostered by workplan reviews undertaken by the programme division, the results of which were widely disseminated with country and regional offices.

29. The process should be further improved, particularly as regards: (a) the timeliness of workplan finalization and their level of details; (b) their regular updates, to reflect significant changes to planned activities, budgets or resources; (c) better rationalization and documentation of workplan budgets; and (d) better alignment of the signed workplans with those included in the global programming system workplan 'snapshots'.

30. The overall effectiveness of the workplan management process should be further strengthened, remedying deficiencies in the design of global programming application controls in the areas of (a) access to global programming system functions; (b) segregation of duties between workplan development and maintenance processes; (c) workplan budget development and approval; and (d) workplan generation and approval.

c. Programme financial management controls

31. Programme financial management procedures and controls require further strengthening, with a rigour similar to that currently applied over the institutional budget, including the development of detailed and supported workplan budgets, by expense category; periodic review of expenses incurred; and regular budget-to-actual reconciliations, by activity and expense category. Enhanced controls should also be applied to ensure appropriate costing of funding proposals, project documents and workplans, to reflect all direct and indirect costs necessary to implement the related activities, and address the cross-subsidization of core resources and programme activities funded from non-core resources.

d. Humanitarian response

32. Improvements as regards humanitarian response activities were noted in 2016. Further actions are required to address programme and operational bottlenecks and enhance the UNFPA performance in this area. This includes the implementation of the funding mechanisms mandated by the Executive Board to bridge funding shortfalls; access to flexible funding to sustain response efforts; and enhancing surge capability and alignment of human resource capacity, to ensure timelier and more effective delivery in humanitarian contexts.

(ii) National execution

a. *Implementing partner capacity*

33. The capacity assessments reviewed in 2016 were undertaken primarily in 2015 or previous years. They continued to reveal the need for a more thorough and better documented assessment of the programmatic and financial management capacity of implementing partners, including their fraud prevention controls, particularly in humanitarian and fragile contexts. Improvement opportunities were also identified by the Board of Auditors in its 2017 management letter.

34. It should be remembered that the revised harmonized approach to cash transfers (HACT) framework was rolled out in 2016; hence, the audits concluded in 2016 partially reflect this change, and the improvements expected therefrom.

b. Financial monitoring of implementing partners

35. Enhanced financial monitoring of implementing partners, to ensure that funds provided are used for their intended purposes in line with the approved workplans and budgets, is an area needing continuous attention.

36. As mentioned in paragraph 34, improvements from the roll-out, in 2016, of the revised harmonized approach to cash transfers (HACT) framework have yet to be fully in place.

(iii) Supply-chain management

37. As mentioned in the past, increased support to programme countries, together with other relevant programme stakeholders, to address gaps in supply-chain management systems that may reduce availability of reproductive health commodities and originate stock-outs is required. Receiving and inspection controls should be more consistently performed and documented. Regular monitoring of inventory of reproductive health commodities held by implementing partners, as well as tracking its timely distribution and availability at service delivery points, continues to be needed.

38. To effectively address the above requires the implementation of more effective and integrated supply-chain management organizational arrangements, processes and systems, from procurement to the 'last mile'. Enhanced quantification, planning, sourcing, procurement, delivery and distribution of reproductive health commodities should support improved achievement of programme goals; foster enhanced cost-effectiveness; and help discharge better fiduciary oversight and contractual obligations.

Operations Management

(i) Human resources management

39. Improvements were noted in the management of personnel engaged under service contracts, particularly as regards their compensation (now managed through the payroll system – which also provides increased transparency on the number of service contract holders) and performance planning and assessment (now managed through the performance assessment and development system). Other activities, such as contract issuance, continued to be managed manually, and some level of deviation from the requirements of the 2014 policy on service contracts was noted on several occasions.

40. More limited progress was made as regards individual consultancy contracts. A tool was developed to register individual consultancy contracts, to be rolled out globally as from 2017, albeit with limited integration with the ERP system. Contract award and consultancy fee calculation and payment continue to be managed manually, and some level of deviation from the requirements of the 2015 policy on individual consultants was observed.

41. Further, limited integration of the corporate and regional consultant rosters, for both service contracts and individual consultants, was noted.

(ii) Procurement

42. Procurement procedures are adequately designed and operate effectively for procurement activities undertaken by the procurement services branch, which account for

approximately half of total procurement at UNFPA. Instances of non-compliance with procurement procedures were found on several occasions at country office level, particularly as regards tendering and contract award.

43. 'Second line of defense' controls under implementation at the end of 2016 need to be strengthened to address the risks originating from the above.

(iii) Financial management

44. Multiple instances of expenses miscoded in account codes, were found – which diminishes the overall reliability of programme and financial information. Compensating controls implemented by headquarters as part of the financial statement preparation process partially mitigate the impact of this issue for financial reporting purposes.

45. To minimize the risks of transactions executed without appropriate management approval and, potentially, incurring expenses in excess of available financial resources, financial commitments should be more timely reflected and approved in Atlas, through issuance of requisitions or purchase orders prior to decisions to procure goods and services or reimburse expenses are communicated to vendors or implementing partners.

(iv) Information and communication technology

46. The governance of information and communications technology projects should be enhanced to ensure that new systems which are rolled out incorporate adequately designed access and other application controls, and enforce segregation of duties requirements.

47. Management proactive efforts in strengthening information and communication technology were noted.

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Addendum

Contents

Page

Annual report of the Audit Advisory Committee 2

17-07390X (E) 120517

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Annual report of the Audit Advisory Committee

United Nations Population Fund
Audit Advisory Committee (AAC)
2016 annual report to the Executive Director

I. Purpose

1. This report is addressed to the Executive Director of UNFPA, and provides a summary of the activities and advice of the Audit Advisory Committee ("the Committee") of UNFPA during 2016. It is written pursuant to item 14 of its terms of reference, and in accordance with paragraph 25 (c) of section IV, subsection I of the UNFPA revised oversight policy.

II. Audit Advisory Committee activities in 2016

2. Members of the Audit Advisory Committee. Committee members are appointed for three years, renewable once. Committee members possess expertise in risk management, internal control, oversight, governance, financial management and reporting, evaluation and development and programme matters. The members of the Committee in 2016 were Ms. Berlina Mxakwe (South Africa), Ms. Mary Ann Wyrsch (USA), Mr. Verasak Liengsririwat (Thailand), Mr. Peter Maertens (the Netherlands) and Mr. Jose Urriza (Argentina). All Committee members are external to UNFPA, and are independent of its management.

3. Meetings. The Committee held five meetings in 2016: two by teleconference (February and March), followed by three in-person meetings (April, June, and November). Individuals invited to relevant sections of the in-person meetings included, among others, the Deputy Executive Director (Management), programme and operational senior management; the Director, Office of Audit and Investigation Services (OAIS); the Director, Evaluation Office; the Director, Division for Management Services; the Ethics Adviser; and the representatives of the Board of Auditors. The Committee also had private meetings with the Director, OAIS; the Director, Evaluation Office; the Ethics Adviser; and representatives of the Board of Auditors. Mr. Liengsririwat, as the Chairman of the Committee, participated in the annual session 2016 of the UNDP/UNFPA/UNOPS Executive Board during its consideration of UNFPA audit and investigation activities. In addition to the formal Committee meetings, the members held consultations and deliberations among themselves, reviewed documents, and provided advice to UNFPA management via telephone and e-mail.

4. Field visits. No field visit was undertaken by the members of the Committee in this reporting period. All Committee members undertook field visits during 2014-2015, as reported in prior years' annual reports.

5. Reporting. The Committee prepared minutes for each of its meetings, provided advice based on the deliberations, and briefed the Executive Director on the outcome of the meetings either in person or by videoconference.

6. Recommendations. The Committee made recommendations and suggestions to UNFPA management during its meetings and followed up on the implementation thereof.

7. Annual assessment of the effectiveness of the Committee. The Committee did an annual self-assessment to confirm the appropriateness of its terms of reference and to assess its effectiveness. The Committee completed the 2016 self-assessment exercise and the result of the exercise was reported to the Executive Director.

III. Summary of the advice of the Audit Advisory Committee to UNFPA management in 2016

8. Issues identified by the Committee and the advice provided to the Executive Director and UNFPA senior management in 2016, are summarized below.

9. Financial statements and reporting. The Committee reviewed the draft UNFPA financial statements and reporting for the year ended 31 December 2015, prepared by the Division for Management Services (DMS) in accordance with the International Public Sector Accounting Standards (IPSAS). The preparation of the financial statements and reporting by DMS is at a level of professionalism and has become a standardized process within the Finance Branch with adequate controls being applied, and performance of sound analysis of accounts with proper follow-up with the field offices and others. The Committee would like to note its appreciation for the assistance provided by the Internal Audit Branch of OAIS and the Finance Branch of DMS in its review process. Based on its review, the Committee advised the Executive Director to forward the financial statements to the Board of Auditors for their use in completing the annual audit.

10. Funding situation. The contributions received by UNFPA in 2016 continued to be affected by the exchange rate fluctuation. The continuous strengthening of the US dollar against other currencies, coupled with reductions in funding levels by several nations, as well as changes in the distribution of funding between core to non-core funds for financing the activities, continued the negative impact to the core funding of UNFPA experienced in 2015. Austerity measures were taken by the organization to address the resulting budget gap.

11. The core funding reductions affect the ability to maintain the current footprint of operations, and the Committee has advised that some cost realignment is needed in the UNFPA structures: other measures are needed in order to finance more staff from non-core budgets and the organization needs to better demonstrate the specific value added from core funding.

12. The Committee encourages a plan to be put in place on how UNFPA will deal with resource reductions, and continue to deliver on its mission.

13. Policy review. In accordance with its terms of reference, the Committee reviews policies that significantly impact: (a) financial management and reporting; (b) internal audit, investigation and evaluation functions; and (c) the effectiveness of the UNFPA system of internal controls and accountability. The Committee continued to review the roll-out of the revised framework for the harmonized approach to cash transfers (HACT) by UNFPA and provided its views thereon; the HACT structures and reporting mechanisms appear to be in place. This method of assurance in cash transfers requires continued vigilance; other policies were reviewed and are elaborated hereafter.

14. The Committee reviewed the policies related to reporting of wrongdoing and to whistle-blowers, and found the necessary elements are in place and functioning.

15. Internal control framework. In September 2016, UNFPA issued the policy on the Internal Control Framework (ICF). This policy is owned jointly by the Division for Management Services and the Programme Division. The Framework follows the 2013

Committee of Sponsoring Organizations of the Treadway Commission (COSO). The work done by the respective UNFPA divisions seeks to integrate programmatic and operational business processes and control into the framework, and seeks to rationalize the developing Framework with elements of the "Three Lines of Defense".

16. The Committee had recommended UNFPA to take stock of its business processes and to prioritize them based on the level of risk exposures and, on that basis, to make the necessary plans to complete the above exercise. The Committee believes that work done on four policies in 2016, including the implementing partner assessment policy as well as the policy on project cash advances, made significant progress in strengthening the processes with high-risk exposure.

17. Vendor review committee. The vendor review committee is an internal technical administrative body established to make recommendations to the Chief Procurement Officer for her consideration. This includes actions taken on final vendor sanctions decisions. The Committee was briefed on the first-year activities of the vendor review committee.

18. The Committee recommended that the vendor review committee produce an annual report, which summarizes its work during 2016, including comments on lessons learned and improvements that could be made to the procurement process. The Committee further recommended that the vendor review committee membership be expanded with a person external to the UNFPA. These recommendations were made to increase the relevance of this body to the entire organization.

19. Enterprise risk management. UNFPA has made further progress in establishing an enterprise risk management (ERM) system. A corporate risk committee had been appointed with terms of reference outlining its various responsibilities. Meetings of the corporate risk committee were held under the leadership of the Executive Director and resulted in the identification of areas for improvements to be addressed in the next cycle.

20. The Committee acknowledges the positive progress on ERM. However, there is still work to be done in relation to: (a) incorporating ERM into the overall governance mechanisms of UNFPA so that it is not seen as a separate activity from the ongoing operations; (b) establishing a formal mechanism for the follow-up on risk mitigation actions that have been identified in the risk clusters; and (c) clearly relating and incorporating the other activities in the organization that impact ERM, such as the Internal Control Framework, the findings of OAIS and the Evaluation Office, and the Audit Monitoring Committee's follow-up on outstanding audit recommendations.

21. Accountability framework. In its previous reports, the Committee suggested that UNFPA revisit and update its 2007 accountability framework, to adapt it to the current operational environment. This is still a work in progress.

22. Audit monitoring committee. The audit findings and recommendations from the UN Board of Auditors and OAIS are managed by the audit monitoring committee chaired by the Executive Director. The audit monitoring committee has continued to play a significant role in reducing the number of outstanding audit recommendations. Staff of the audit monitoring committee have started to group the past audit recommendations into thematic areas, such as issues of internal control, which have been pervasive in audit reports. This enables management to deal thematically with audit recommendations. Audit monitoring committee staff efforts have included identifying specific actions to be taken by management to address and resolve the thematic issues identified. On this subject, the Committee noted that these thematic groups closely

resemble the corporate risks identified, and it encourages UNFPA to make sure that there is not duplication of this and of the ERM efforts.

23. Information and communication technology (ICT). The Committee was briefed on the efforts being undertaken by the organization to enhance the ICT governance structure and to use ICT as an enabling tool to support UNFPA in the delivery its programmes in more effective and efficient ways.

24. An independent assessment of the UNFPA ICT was undertaken and its report shared with the Committee. The report clearly identified the need for change and for taking a new approach to ICT, with proper governance and management of ICT services, which would enable ICT to fully support UNFPA in its operations.

25. The report is comprehensive in detailing a programme of change and contains an implementation plan. This set of changes and goals for implementation seems ambitious, and will be a challenge to achieve in such a short timeframe. The Committee agrees with the report findings that the first order of business is to establish a strong and robust governance structure for ICT within UNFPA. The Committee encourages UNFPA to consider several factors in adopting and implementing change: (a) the current state of the overall ICT organization; (b) assessments and decisions regarding the enterprise resource planning (ERP) to be used in future; (c) the human capital element of the change, including requirement for performance of proper change management activities, and (d) good communication strategies to address the move to the new systems.

IV. Summary of Audit Advisory Committee advice related to the Evaluation Office and the Office of Audit and Investigation Services

26. In accordance with item 16 of its terms of reference, the Committee regularly reviews the evaluation function, as well as the audit and investigation functions of OAIS – including review of the charter, scope, plans, activities, resources, staffing and organizational structure.

A. Evaluation Office

27. In each of its meetings, the Committee was briefed by the Director of the Evaluation Office on the status of its quadrennial workplan for 2016-2019, which was adopted by the Executive Board in September 2015. The Committee is satisfied with the achievement of the Evaluation Office.

28. The quality of country programme evaluations continued to improve during 2016. The improvements are partially due to greater involvement, including quality assurance measures taken by the Evaluation Office. The greater involvement of the Evaluation Office included reviewing and approving terms of references for country programme evaluations, providing assistance to preselect and identify evaluation teams, and working closely with the respective regional monitoring and evaluation officers in the planning and execution processes of country programme evaluations.

29. The Committee was informed that there were evaluations of UNFPA projects and programmes that the Evaluation Office was not aware of. These were due to the inclusion of evaluation requirements in projects and programmes being implemented with non-core funds. As these evaluation activities are not coordinated with the Evaluation Office, there is risk of duplication and lack of adherence to corporate standards. The Committee recommends that all project agreements that contain

requirements for evaluations be coordinated and reviewed by the Evaluation Office to ensure adherence to corporate standards and to avoid duplication of efforts.

B. Office of Audit and Investigation Services (OAIS)

30. The Committee reviewed the issue of whether OAIS has sufficient authority, support and access to personnel, facilities and records to carry out its work without restriction or limitations. The Committee concluded that OAIS does have sufficient authority, with the support of the Executive Director, and that it has independence in performing and discharging its responsibility.

31. The Committee provided its views on the basis on which OAIS could provide its opinion on the adequacy and effectiveness of the UNFPA framework of governance, risk management and control where it is applicable.

Internal audit

32. At the first review of the provisional audit plan in February 2016, the Committee made comments and suggested to OAIS to realistically address the projected dates of completion for individual audit assignments, to complete the outstanding audit work from prior years, and to set aside resources to address contingencies.

33. The Committee noted, for the Executive Director, that in considering the final version of 2016 audit plan, submitted to the Committee for review on 30 March 2016, that the plan reflect the comments and suggestions made on the earlier version.

34. The Committee concurred with the decision to defer the update of the 2015 audit risk assessment until sufficient information on the nature, extent and impact of the measure taken to address a 2016 decrease in funding level was available.

35. An external quality assessment of the OAIS internal audit activity report issued during 2016 has given an overall opinion that the UNFPA internal audit activity "generally conforms" to the standards and definition of internal audit and the code of ethics. This is the top rating and means that an internal audit activity has a charter, policies and processes that are judged to be in conformance with the International Standards for the Professional Practice of Internal Auditing.[1] Nevertheless, the Committee is concerned about the constant delays in the audit process, the difficulties encountered in the clearing process related to audit findings and recommendations and the finalization of audit reports, and the turnover of audit staff. All these issues need to be addressed for UNFPA to have an effective internal audit service.

36. The Committee continued to be updated on the progress made on a continuous auditing tool known as "Remote Audit and Monitoring". This tool had been developed to leverage data analytics for enhanced assurance; it was piloted by OAIS in the Eastern Europe and Central Asia region. OAIS staff mentioned that there was very high acceptance of the approach by management and staff in the Eastern Europe and Central Asia region and that it resulted in an audit report issued in December 2016. OAIS is expanding the pilot to the Latin America and the Caribbean region. The Committee will continue to monitor this initiative.

Investigations

37. The Committee reviewed the activities and results of the UNFPA investigation function, which forms part of OAIS. The situation since the last report is stable. The Committee was informed that the complexity of the investigative work continues to increase, particular with the investigation of third parties, such as vendors and

[1] Promulgated by the Institute of Internal Auditors (IIA).

implementing partners. In this respect, the Committee appreciates the action taken by the Executive Director in providing his full support and additional resources for the function in 2017.

38. The caseload, which is the number of cases worked on during the year, increased from 42 cases in 2012[2] to 142 cases in 2016.[3] There were 41 open cases as at 31 December 2016, compared to 52 at year-end 2015, 44 at year-end 2014 and 34 at year-end 2013. While most of the open cases stem from 2016, the open cases continue to be at a high level, which may result in the possibility of a substantial reputational risk that can have many consequences, including concerns of donors who provide non-core funding for projects in the field.

39. The Committee was informed that new mandatory donor reporting requirements increased significantly – donors are asking for reports on wrongdoing related to the projects they fund, either bilaterally or through pooled funding mechanisms. The donors wish to be informed when an investigation is started, be informed during the investigation, alerted at the conclusion of the investigation, along with the action taken. These demands are resource-intensive and increase complexity; further, it might jeopardize the integrity of the investigation – once a donor has information on a case, then UNFPA has no control on the confidentiality of information. The Committee urges donors to rely on the UNFPA investigative system, which is impartial and investigates all credible allegations of wrongdoing and exercises appropriate caution on issues related to confidentiality and timing of release of information in investigations.

Advisory services

40. OAIS attends management meetings and provides advice to UNFPA on specific matters. The Committee was informed that due to resource constraints, the advisory demands in 2016 were limited to the most critical ones, and were mainly dealt with by the Director, OAIS.

Reporting

41. Report of the Director, OAIS, to the Executive Board on internal audit and investigation activities. The Committee noted the content of the Report of the Director, OAIS, on UNFPA internal audit and investigation activities in 2016 (DP/FPA/2017/6), which will be submitted to the Executive Board at its annual session 2017.

42. Public disclosure of internal audit reports. In accordance with Executive Board decision 2012/18, all internal audit reports issued by OAIS since 1 December 2012 are publicly disclosed on the UNFPA website. This usually occurs one month after the reports have been issued internally or after a reasonable time, to allow for consultations with the Governments of the Member States concerned. The Committee notes that all reports issued in 2016 were publicly disclosed.

V. United Nations Board of Auditors

43. The Committee meets regularly with the external auditors of UNFPA who are the Board of Auditors to:

(a) Discuss the workplans of the Board of Auditors;

(b) Review relevant reports and management letters issued by the Board of Auditors, including reports on UNFPA financial statements and its related notes;

[2] As at year-end 2012
[3] As at year-end 2016

(c) Discuss internal controls and matters raised by the Board of Auditors; and

(d) Review the adequacy of the management response to the observations and recommendations of the Board of Auditors, and assess the status of implementation.

44. The Board of Auditors gave an unqualified opinion on the financial statements for 2015 and raised a number of control issues. All of the 22 recommendations made for the year 2013 and previous years had been implemented. For 2014, 4 out of 10 recommendations[4] have been implemented. This represents the continued efforts by senior management to resolve issues and implement the agreed recommendations from the Board of Auditors.

VI. UNFPA Ethics Office

45. In its June 2016 meeting, the Committee had a private meeting with the UNFPA Ethics Adviser. The Committee supports the ethics function in UNFPA, which fosters a culture of integrity and accountability. The Committee notes the continuous support and importance placed on the ethics function by the Executive Director and the senior management of UNFPA.

VII. Conclusion

46. As already stated in this report, the UNFPA funding situation has been one of the main topics discussed at the Committee meetings and of the Executive Board. Because of the funding challenge, the Committee encourages that a plan be put in place on how UNFPA will deal with resource reductions while continuing to deliver on its mission.

47. UNFPA has launched several management initiatives over the past few years, and the Committee reiterates its recommendation that all these efforts be well coordinated to achieve maximum benefits and to avoid duplication of efforts.

48. Areas that require further attention include:

(a) Further development of enterprise risk management and the linkage between ERM, internal control and accountability frameworks;

(b) Addressing risks related to information and communication technology, including ICT governance and strategy;

(c) Completion of a realistic risk-based internal audit plan for 2017; and

(d) Addressing concerns related to the internal audit process, including the timely completion and issuing of internal audit reports, in accordance with the approved plan, and effective and timely clearing of audit reports with the services.

49. During 2017, the Committee will continue to pursue the issues identified in this report as well as other issues within its mandate.

50. The Committee wishes to thank the Executive Director, the Deputy Executive Directors and senior staff, the staff of OAIS and of the Evaluation Office, the Board of Auditors and other UNFPA management and staff who participated actively in the Committee's activities and cooperated with the Committee in discharging its responsibilities.

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[4] As at 26 October 2016